

An Overview of the Health Services Account Deficit



SENATE WAYS & MEANS COMMITTEE STAFF
January 22, 2003

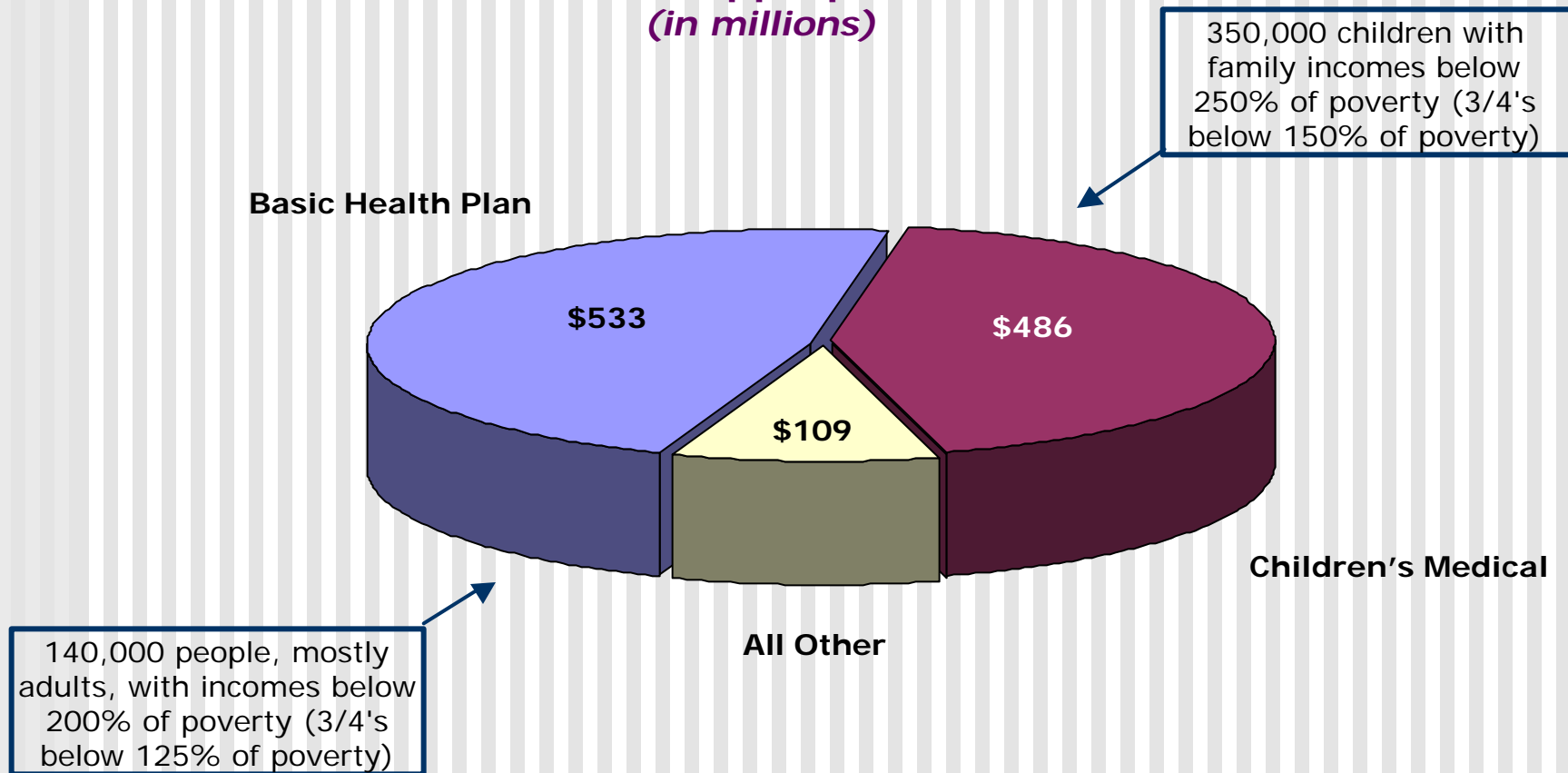
<http://www.leg.wa.gov/senate/scs/wm/default.asp>

Presentation will address:

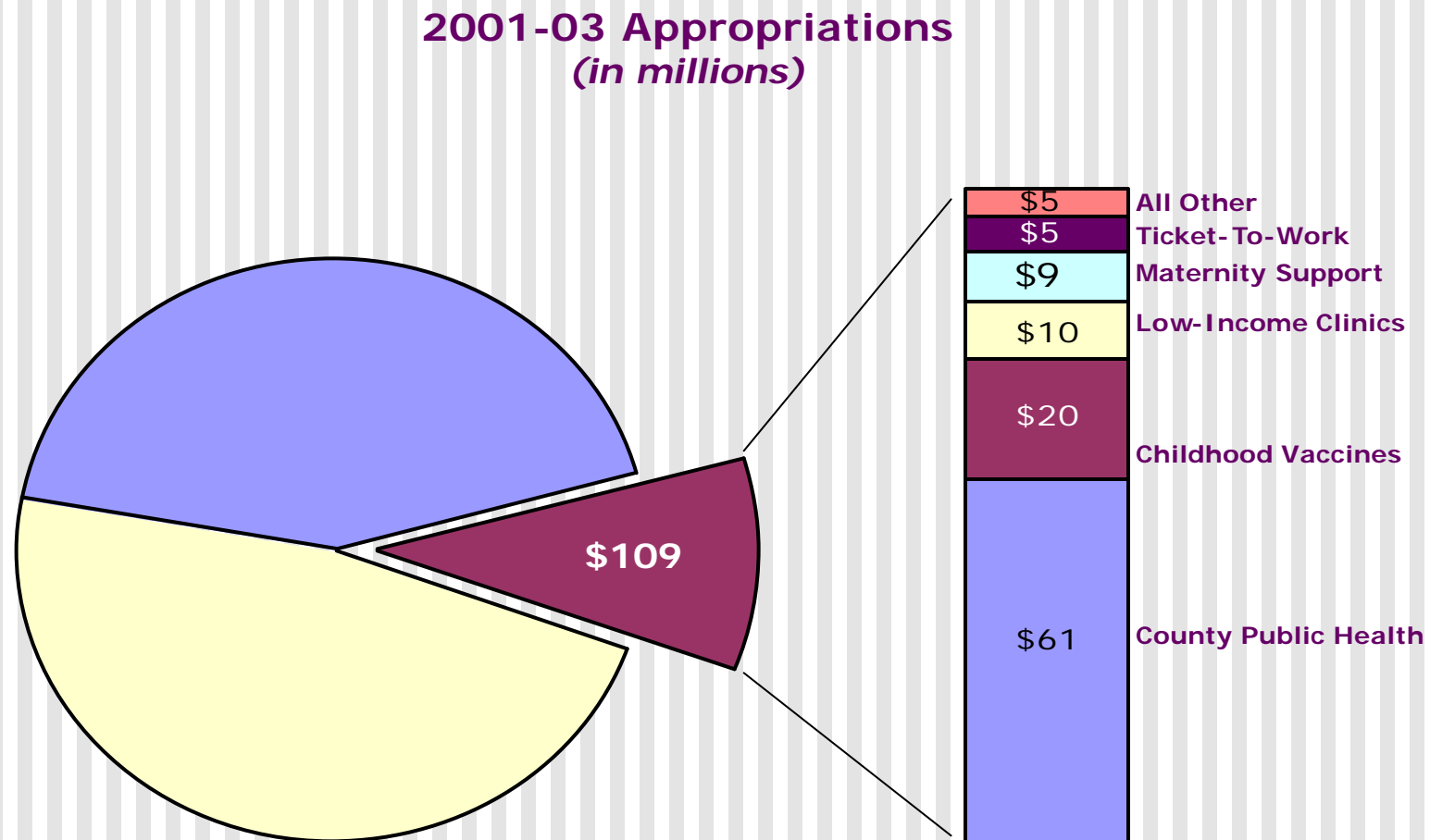
- What the Health Services Account pays for.
- Where the revenues come from.
- Distinction between the "General Purpose" and the "I-773" sub-accounts.
- Size & causes of the projected deficit in the "General Purpose" sub-account.
- Implications for the I-773 sub-account.

The Health Services Account Is Currently Budgeted to Spend \$1 Billion This Biennium On Subsidized Medical Care for 500,000 Low-Income Washingtonians.

2001-03 Appropriations (in millions)

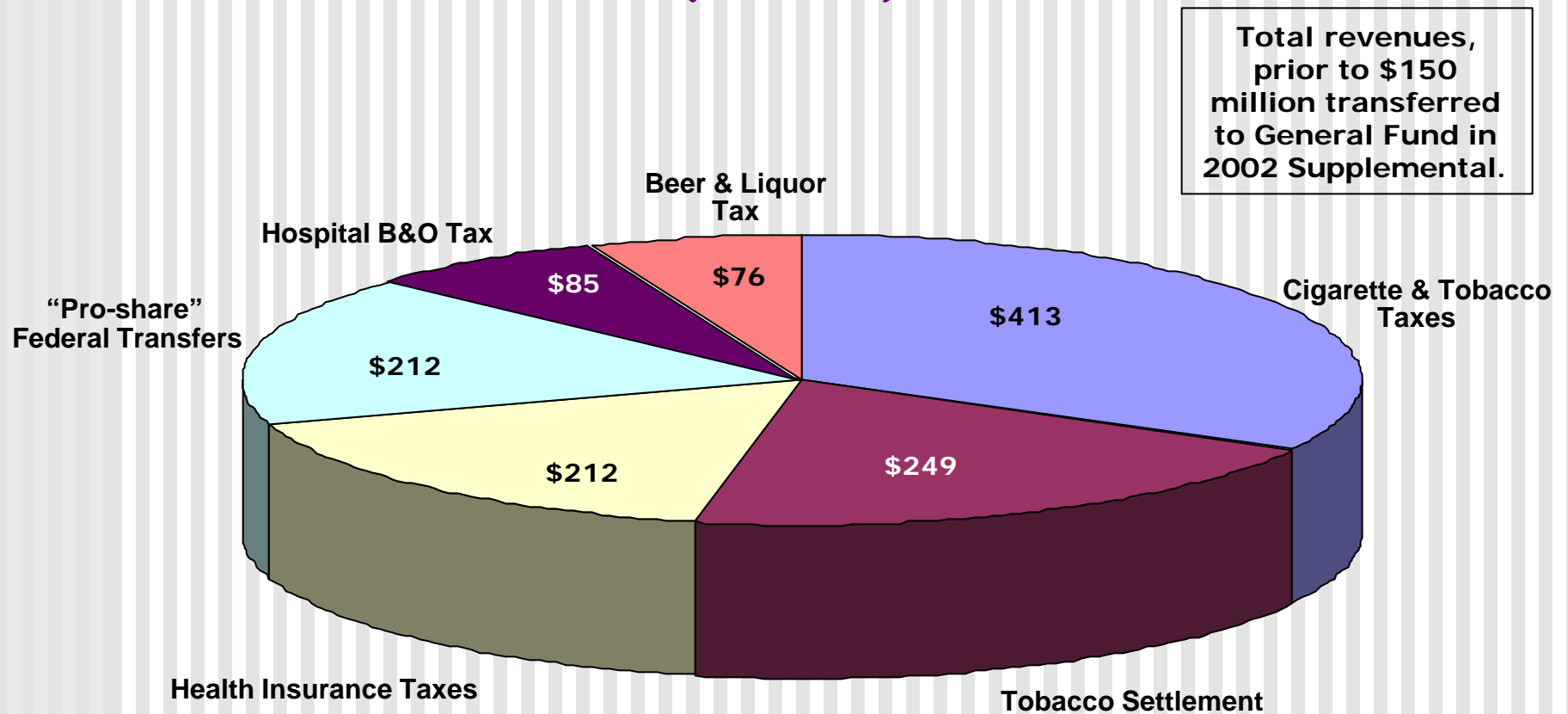


The Remaining \$100 Million of Budgeted 2001-03 Expenditures Are Primarily for County Public Health Programs.



The Health Services Account Will Collect About \$1.25 Billion of Revenues This Biennium, Half of It from Tobacco

November 2002 Revenue Forecast (in millions)



With Passage of Initiative 773 in 2001, the Health Services Account Must Function as Two Separate Sub-Accounts.

The "General Purpose" or "Core" Account

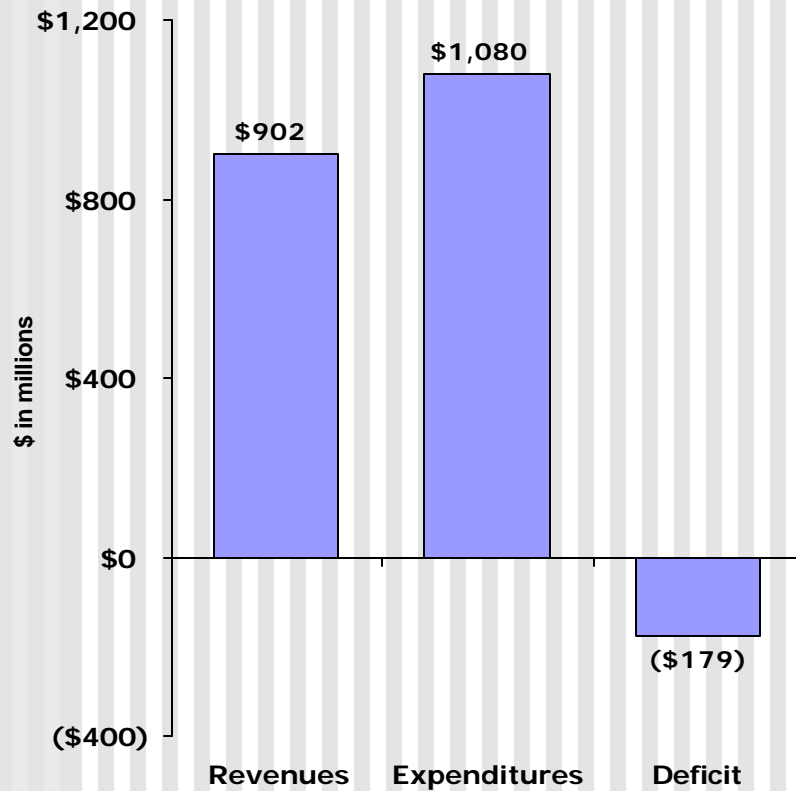
- \$900 million of net 2001-03 revenues. Pays for 125,000 BHP enrollments, and all other programs.

The "I-773 Sub-Account"

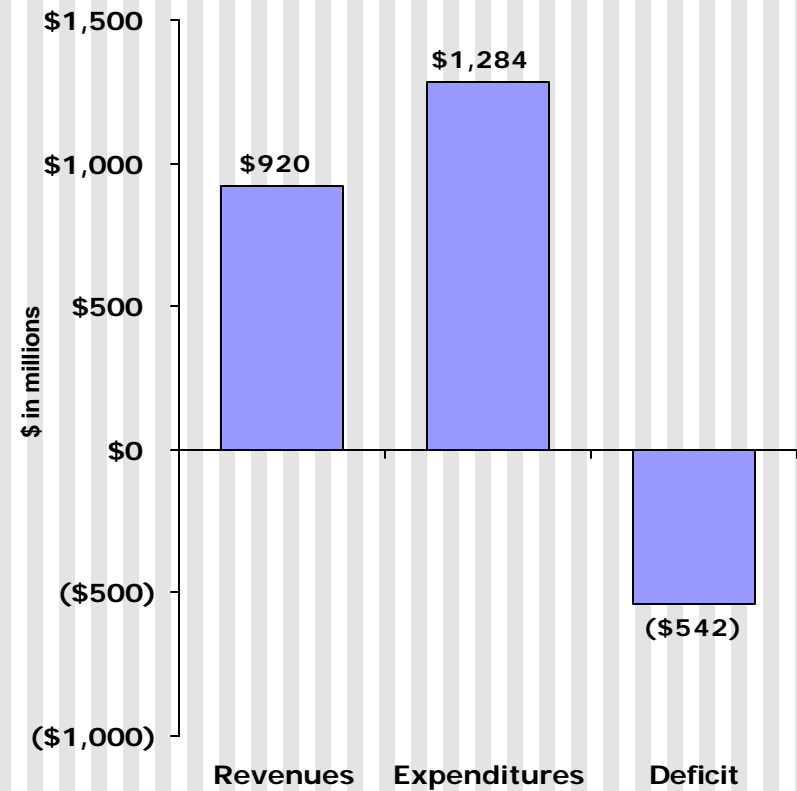
- \$115 million of revenues per year, from 60 cent increase in cigarette tax, and 55% surcharge on tobacco products tax.
- By statute, except for \$17 million/year dedicated for tobacco prevention and public health, may only be used for BHP enrollments after first funding 125,000 from other sources

**If Current Programs and Policies Were to Continue,
the "Core" Health Services Account Would Be Almost
\$550 Million in Deficit by the End of Next Biennium.**

2001-03 Biennium

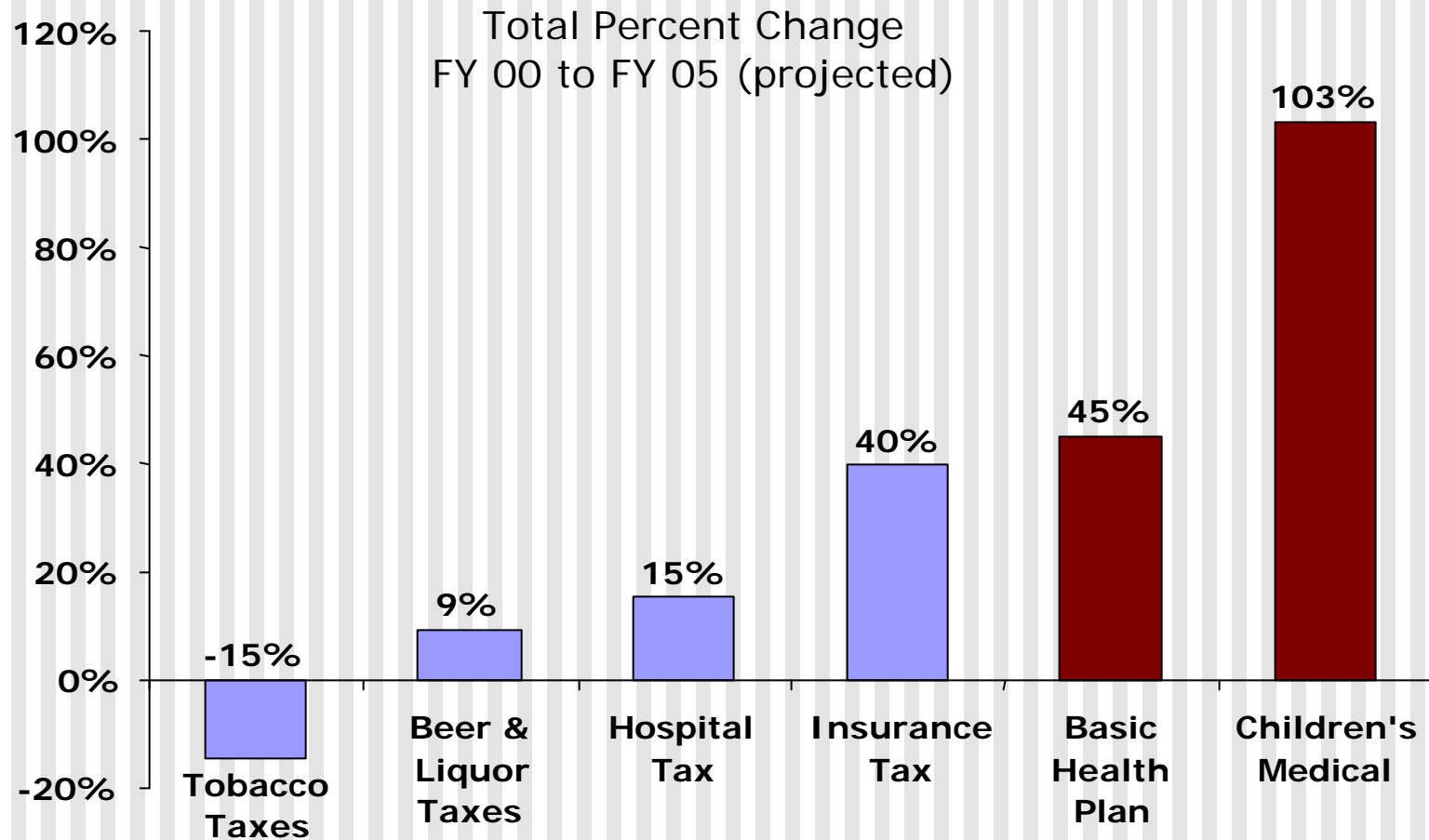


2003-05 Biennium

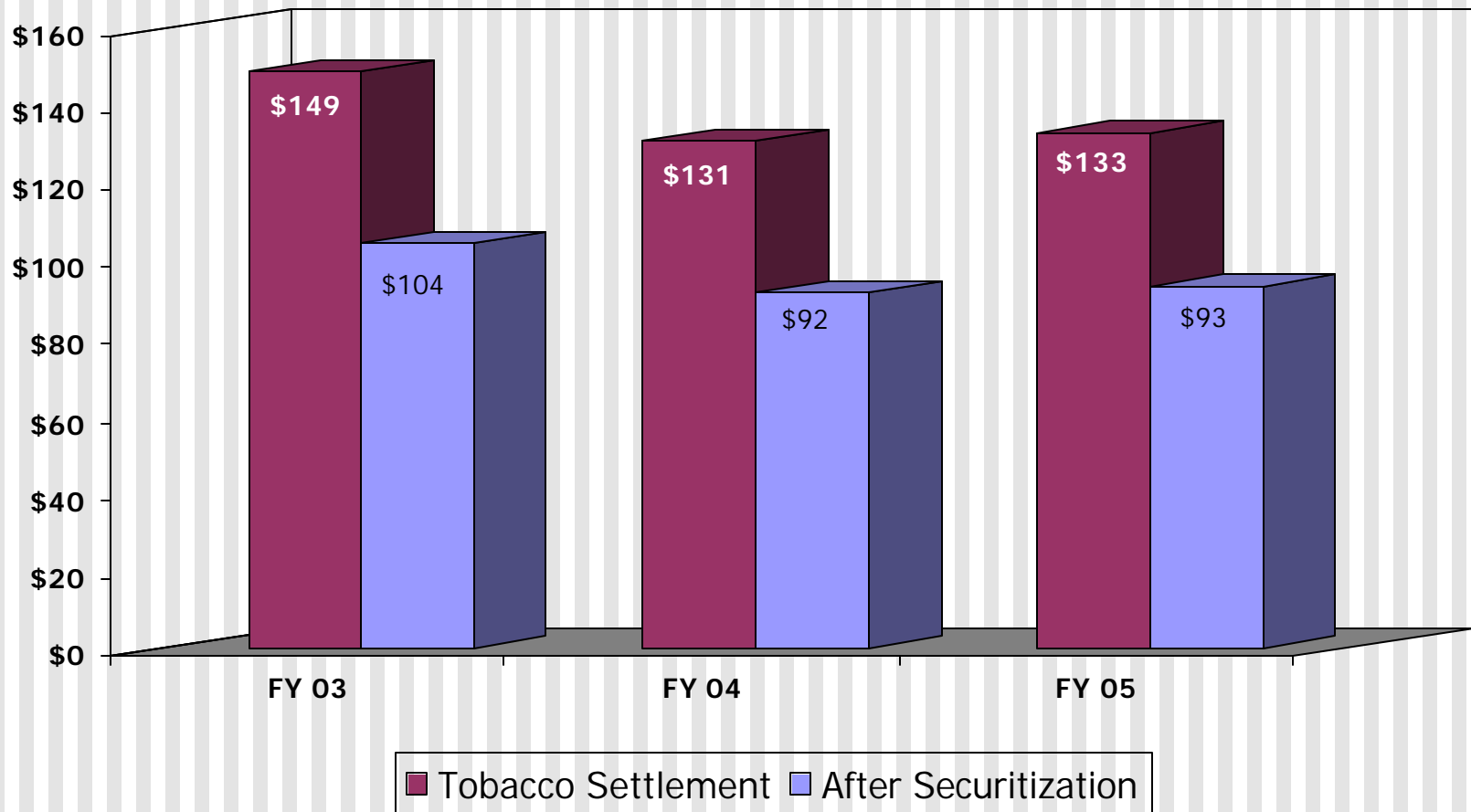


**The "Core Account" Deficit
Is the Result of
Three Primary Factors...**

Factor 1: The Two Primary Programs Funded by the "Core" Health Services Account Are Growing Much Faster Than the Revenue Sources Which Pay for Them.



Factor 2: Revenues Will Be About \$125 Million Lower Over the Next Three Years Because of Tobacco Securitization.



Factor 3: Federal "Pro-Share" Revenues Are Hundreds of Millions of Dollars Less Than Anticipated.

"Pro-Share" is a (closing) loophole in federal statute and rules under which states have been able to collect additional federal Medicaid match. Simply stated, it works like this:

- State pays hospital/nursing home one state dollar and one federal matching dollar.
- Hospital/nursing home returns up to \$2 to the state.
- = State has just netted up to \$1 (less whatever is retained by hospital/nursing home).

Estimates of Net* "Pro-Share" Revenues (in millions)

	01-03 Biennium	03-05 Biennium
Governor's 2002 Supplemental Budget Estimate	\$920	\$219
Legislature's 2002 Supplemental Budget	\$511	\$35
Needed in order for 02 Supplemental to Balance	\$322	* *
Amount Actually Approved by Federal Government	\$178	\$84

**total "pro-share" transactions, less state expenditures on match, and funds retained by hospital associations.*

Under the 2002 Supplemental Budget, I-773 Revenues Were to Support 47,000 Additional People* on the BHP by June 2003. 11,000 Are Currently Enrolled.

	FY 03	FY 04	FY 05
Additional BHP Enrollments	29,500	47,025	47,025
BHP Costs (in millions)	\$34	\$97	\$106
I-773 Sub-Account Balance (in millions)	\$136	\$148	\$152

** 27,000 immigrants for whom DSHS Medical Assistance coverage was terminated 10/1/02, and 20,000 people from the regular waiting list beginning 1/1/03.*

With a Two-Thirds Vote by Both the House and the Senate, I-773 Revenues Could Be Used to Offset Part of the \$550 Million Deficit in the "Core" Health Services Account.

- Adding 47,000 I-773 enrollees as previously planned, but using the remaining I-773 balance to support 125,000 "base" BHP enrollees as required by the initiative, would reduce the total deficit to \$400 million.
- Continuing coverage for the 11,000 persons currently enrolled, but using all remaining I-773 balance to support 125,000 "base" enrollees, would reduce the total deficit to \$200 million.

So additional deficit reduction measures would still be needed:

- | | |
|-------------------------------------|--|
| ▶ new taxes? | ▶ cut BHP enrollments? |
| ▶ shift costs to General Fund? | ▶ cut children's Medicaid enrollments? |
| ▶ reduce scope of covered services? | ▶ cut county public health or community clinics? |